Income Tax - Pension Annuity

How do I deduct retirement benefits from PERA on the state income tax return?

Recipients of retirement benefits from the Public Employees Retirement Association (PERA) must consider two options for subtracting all or a portion of their retirement income on their Colorado income tax return.

- 1) Colorado allows a pension-annuity subtraction for taxpayers who are at least 55 years of age. If your total federally taxable pension income from all sources is:
 - less than \$20,000 and you are 55-64 years of age, or
 - less than \$24,000 and you are 65 years of age or older

all of your pension income is fully excludable for Colorado income tax purposes under the regular \$20,000/\$24,000 pension exclusion. If this is the case do not use the second option below.

2) If you made employee contributions to PERA any time between July 1, 1984 and Dec. 31, 1986 and you are receiving PERA benefits during the current tax year, you can subtract these contributions on the Other Subtractions line of the Colorado income tax return. This subtraction should only be claimed if the pension-annuity subtraction (option 1) does not cover the entire amount of your taxable pension-annuity income for the tax year because this is a one-time subtraction and, once claimed, cannot be claimed in future years.

Since these contributions can only be deducted one time, it is up to the taxpayer to decide which year to use the subtraction. There is no requirement that the subtraction be used in the first year it is available. The subtraction can be used instead of the \$20,000 pension subtraction from option 1, although this would generally not be good tax planning.